

Metro Philadelphia Industrial, Q4 2018

Southeastern Pennsylvania

construction on the rise

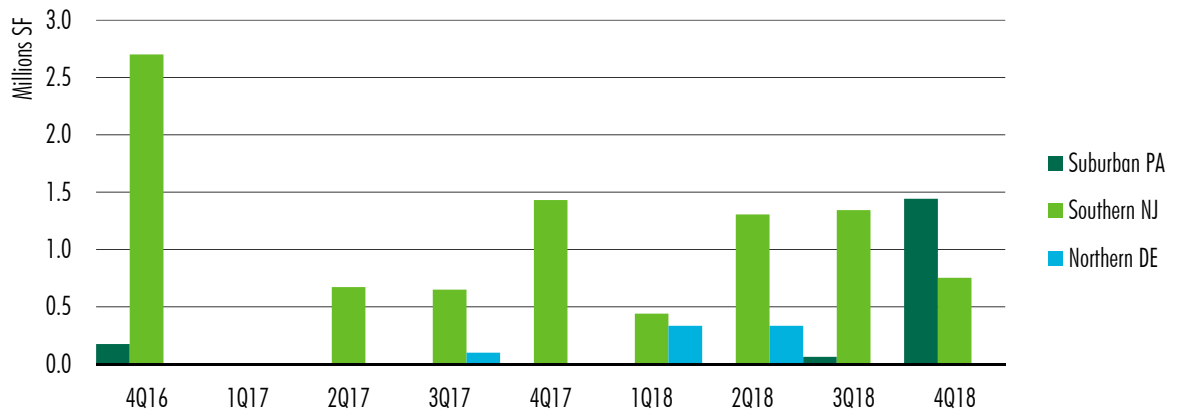
Net Absorption
435,320 sq. ft.

Vacancy Rate
5.1%

Asking Lease Rate (NNN)
\$5.72

Development
5.9 Million sq. ft.

Figure 1: Philadelphia Metro Industrial Construction Starts by Quarter



Source: CBRE Research, Q4 2018.

- Vacancy within the Metro Philadelphia market remained steady at 5.1% from Q3 2018’s historic low of 4.9%. This trend is expected to continue throughout the coming quarters, but, as new product is added to the market, expect vacancy rates to remain largely steady with some variances.
- Lease rates lessened slightly in Q4 2018 at \$5.72 from \$5.86 in Q3 2018 likely due to a lack of available, newer space rather than market pricing. As new product enters the market expect rents to rise if new available speculative space remains on the market.
- Developers in Southeastern PA remained optimistic as 1.5 million sq. ft. were under construction in the market with Bucks County accounting for over 1.0 million sq. ft. alone.
- More than \$297 million of investment sales occurred in the Metro Philadelphia market in Q4 2018. Private investors made up 48% of the sales volume, and foreign investment accounted for 13.6%, largely from Singapore investors.

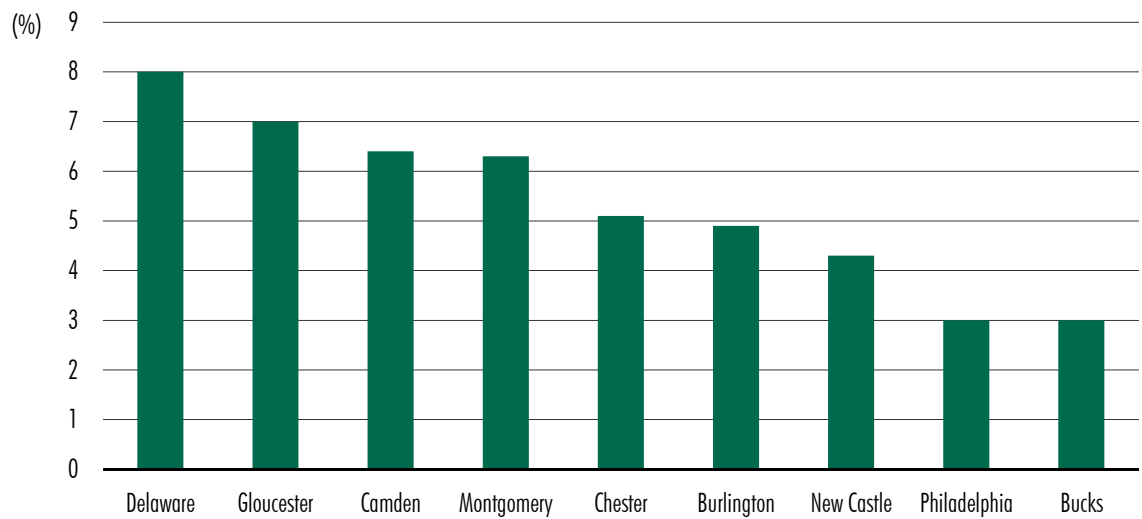
Construction activity remained elevated during Q4 2018 as nearly 6 million square feet (sq. ft.) of industrial product awaited completion. Despite the delivery of 1.2 million sq. ft. this quarter, the vacancy rate remained steady at 5.1% – an indicator of pent-up demand in the market. Southeastern PA saw the largest increase in construction starts as 1.5 million sq. ft. of new product broke ground. Bucks County accounted more than 1 million sq. ft. of this. Developers that largely sat on the sidelines during the post-recession period in Southeastern PA became motivated by rising rents. Despite Southeastern PA’s strong construction activity, Southern NJ remained the most active market with 4 million sq. ft. under construction. As new product delivers, vacancy may fluctuate, but the gap between supply and demand is slowly closing.

Figure 2: Industrial Market Statistics for All Properties Greater than 40,000 sq. ft.

Submarket	Inventory (SF)	Total Vacancy Rate (%)	Total Availability Rate (%)	Completions (SF)	Under Construction (SF)	2018 YTD Total Net Absorption (SF)	Avg. Asking Lease Rate (\$NNN/PSF/YR)
Bucks County, PA	47,168,083	3.0	4.9	0	1,084,300	351,739	6.51
Chester County, PA	24,673,548	5.1	7.6	0	0	508,750	9.13
Delaware County	20,729,412	8.1	10.5	0	63,000	428,165	5.11
Montgomery County, PA	58,051,282	6.3	8.6	0	150,000	-68,104	6.25
Philadelphia County, PA	56,028,937	3.0	7.8	0	207,500	1,110,089	5.19
Southeastern PA Subtotal	206,651,262	4.7	7.6	0	1,504,800	2,330,639	6.07
Burlington County, NJ	43,701,290	5.0	9.6	0	2,741,806	876,391	5.25
Camden County, NJ	26,834,943	6.5	7.8	0	0	789,112	4.74
Gloucester County, NJ	31,489,425	7.0	9.1	1,199,737	1,363,312	1,674,587	4.96
Southern NJ Subtotal	102,025,658	6.0	9.0	1,199,737	4,105,118	3,340,090	5.06
New Castle County, DE	24,531,147	4.3	6.5	0	334,000	545,165	6.97
TOTAL	333,208,067	5.1	8.0	1,199,737	5,943,918	6,215,894	5.72

Source: CBRE Research, Q4 2018.

Figure 3: Vacancy Rates by County



Source: CBRE Research, Q4 2018.

ABSORPTION

Q4 2018 finished off positive with 435,320 sq. ft. of net absorption, but 2018 annual absorption totals did not match last year’s performance of 9.4 million sq. ft. of occupancy growth. This was largely due to a lack of supply rather than demand. 83% of all space constructed in 2018 was leased at year-end, and 2019 deliveries are already on pace to surpass 2018 totals by 1.5 million sq. ft. As such, demand should enjoy a significant uptick next year.

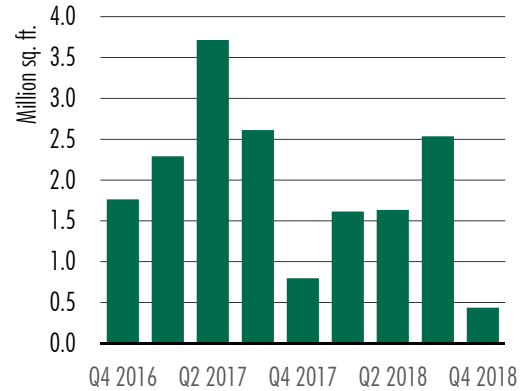
VACANCY

The vacancy rate for Metro Philadelphia remained relatively steady at 5.1% this quarter, up just 20 bps from last quarter’s all-time-low of 4.9%. The tightest market in the Metro, Northern Delaware, saw vacancy remain virtually unchanged from last quarter at 4.3%. While 334,000 sq. ft. of new space remained under construction in Northern DE, a single build-to-suit property accounted for all of it, offering no relief to supply constraints. Southern NJ saw vacancy fluctuate from 5.6% to 6.0% due to new available product in Gloucester County. Expect vacancy rates to persist near these recent lows as more product comes to market in the face of pent-up demand.

DEVELOPMENT PIPELINE

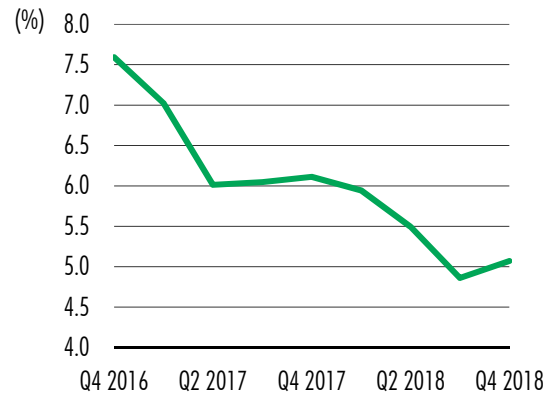
The Metro Philadelphia market had nearly 6 million sq. ft. of product under construction with 1.5 million sq. ft. of development in Southeastern PA. New development in Southern NJ saw construction leading the charts with over 4 million sq. ft. under construction. New developments in Bucks County drove the largest increase in construction within the Southeast PA market at just over 1 million sq. ft. of industrial product. Access to labor and highway systems are playing a greater role in Southeastern PA with the completed improvements to the Pennsylvania Turnpike and increasing population in the Philadelphia metro.

Figure 4: Net Absorption



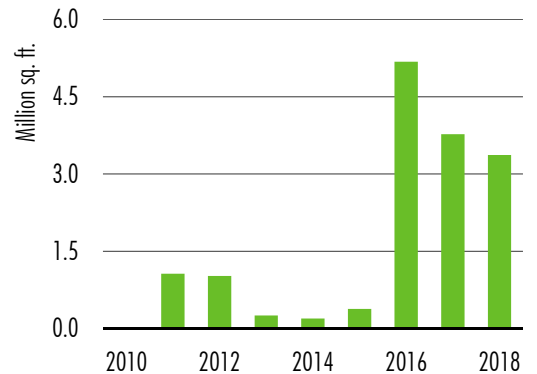
Source: CBRE Research, Q4 2018.

Figure 5: Vacancy Rate



Source: CBRE Research, Q4 2018.

Figure 6: Completions



Source: CBRE Research, Q4 2018.

LEASE RATES

Overall, average asking lease rates fell slightly in Q4 2018 at \$5.72 per sq. ft. Rents in Northern DE were up, quarter-over-quarter, hitting nearly \$7.00 per-sq.-ft. in Q4 2018. Similarly, Southern NJ asking rents grew significantly from \$4.77 to \$5.06 per-sq.-ft. Softening rents in Southeastern PA, specifically for R&D/flex product, accounted for the overall drop in rents in the metropolitan area. But, as newer product begins to come to market in the coming year, expect rents to trend higher as more attractive, modern space commanding higher rents are added to the equation.

CAPITAL MARKETS

More than \$297 million of investment sales took place in the greater Philadelphia Metro area during Q4 2018, nearly double of Q3 2018's \$156 million. Private capital accounted for nearly 50.0% of the buyer pool, according to Real Capital Analytics, while institutional and foreign dollars claimed the rest. Notably, foreign investment dropped in Q4 2018 with buyer composition at 13.6% mainly originating from Singapore, China, and Bahrain. The most significant sale of the quarter was 300 Bordentown Hedding Rd purchased by First Industrial Realty Trust from Time Equities, Inc. for \$16 million in Q4 2018.

MANUFACTURING BUSINESS OUTLOOK SURVEY

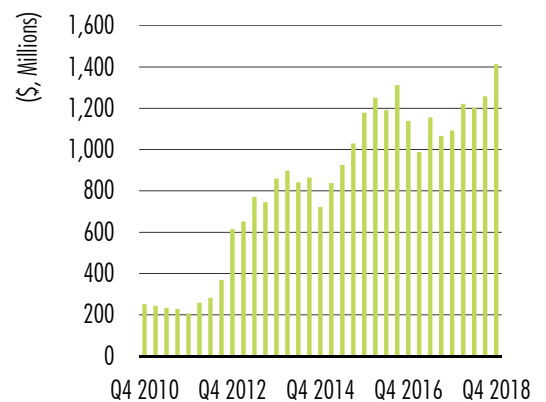
Current manufacturing activity within the Philadelphia MSA posted positive growth despite subdued economic activity according to the latest release of the Philadelphia Federal Reserve Bank's business outlook survey. Manufacturers remained optimistic as future activity forecasts growth to trend positive into 2019. Employment in the Philadelphia region is expected to grow in the coming months with an already low unemployment of 5.0%. Nearly half of all manufacturing firms are expecting to hire more employees in 2019 to meet labor shortages which should help bolster industrial real estate demand.

Figure 7: Industrial Lease Rates



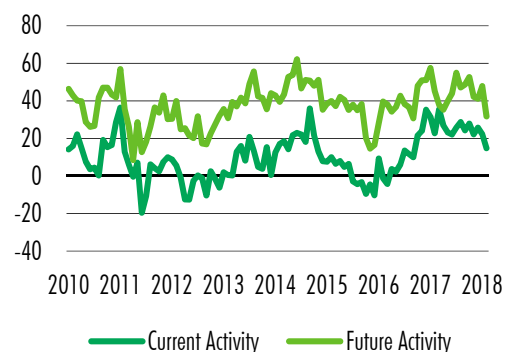
Source: CBRE Research, Q4 2018.

Figure 8: Industrial Sales Transactions

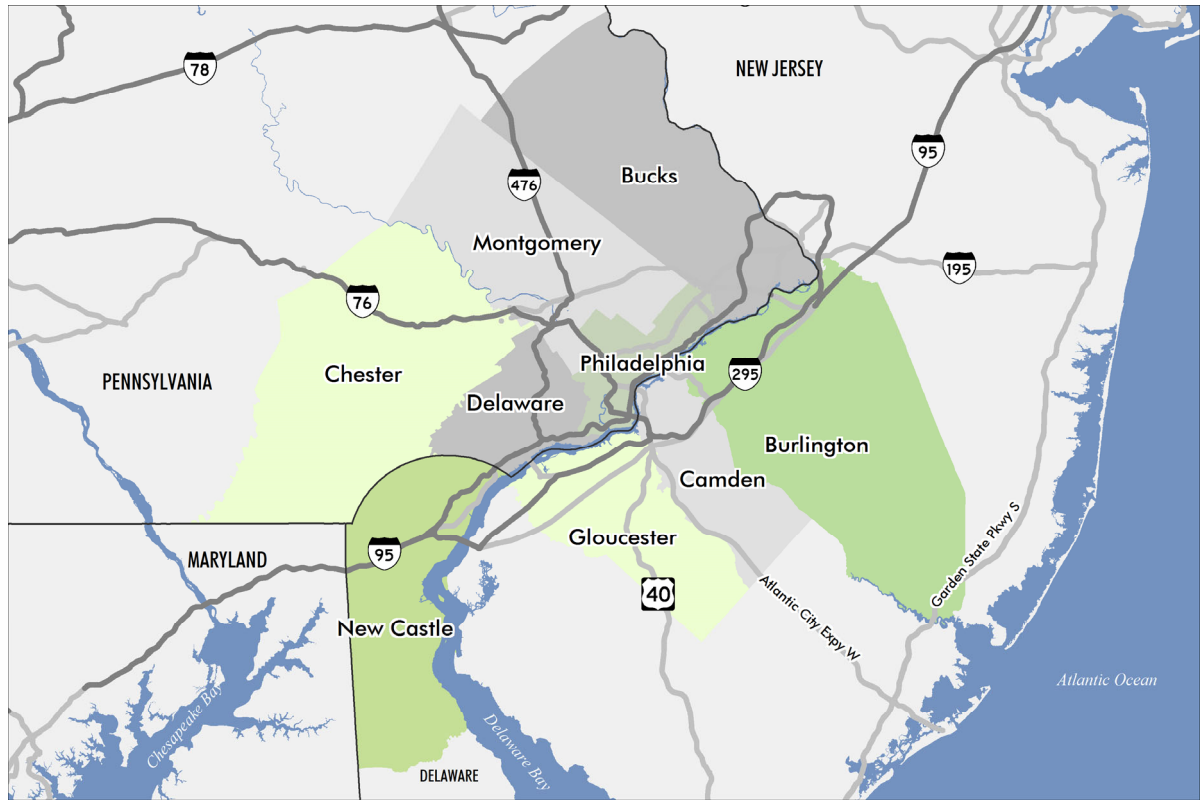


Source: Real Capital Analytics, Q4 2018 (4-Qtr. Aggregate).

Figure 9: Phila. Federal Reserve's Business Outlook Survey



Source: Philadelphia Federal Reserve Bank, December 2018.



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